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DEVELOPING

**"HOME-
GROWN"**

INDUSTRY



THE AREA
REDEVELOPMENT
BOOKSHELF OF
COMMUNITY AIDS



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DEVELOPING “HOME-GROWN” INDUSTRY

U.S. DEPARTMENT OF COMMERCE

Luther H. Hodges, Secretary

AREA REDEVELOPMENT ADMINISTRATION

William L. Batt, Jr., Administrator

**THE AREA
REDEVELOPMENT**



**BOOKSHELF OF
COMMUNITY AIDS**

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FOREWORD.

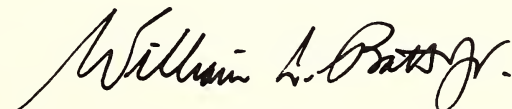
The basic responsibility of the Area Redevelopment Administration of the U.S. Department of Commerce is to help revitalize the economies of American communities suffering from chronic unemployment and underemployment.

This task requires a broad attack on a wide front, bringing into play the resources of private enterprise, the community and the State, as well as the assistance that is available from the Area Redevelopment Administration and other agencies of the Federal Government.

■ ■ ■ The scope of the problem makes it clear that every possibility for creating new employment in redevelopment areas must be investigated and every project offering reasonable prospects for success considered.

This booklet describes one method of attacking the problem—the development of “home-grown” industries. This concept of starting economic development at home, instead of going afield for new industries, is one that has not received the attention it has deserved. And yet, as this booklet shows, new business enterprises that have something in common with local resources and that involve local people have a unique contribution to make to strengthening ailing local economies and putting people back to work.

This publication was prepared by Gerald F. Albright, Special Assistant to the Assistant Administrator for Area Operations. It is another publication in the Area Redevelopment Administration’s “Bookshelf of Community Aids,” and it can make an important contribution to local self-help efforts.

A handwritten signature in black ink, reading "William L. Batt, Jr." in a cursive script.

William L. Batt, Jr., Administrator
Area Redevelopment Administration



A BALANCED PROGRAM

Creating new jobs in a redevelopment area can be done in two main ways. Industries outside the community can be sold on the advantages of locating new plants in the area, or the community itself can develop new industrial and commercial enterprises that will result in new employment opportunities.

For the most part, communities in redevelopment areas have concentrated their efforts on bringing in new industry. This approach has several advantages:

- It offers the prospect of a dramatic rise in employment when a new plant is opened, and in some cases one new plant may be enough to eliminate most of the area's excess unemployment.
- It gives the whole community a big boost in morale when a new plant arrives.
- It usually creates a noticeable amount of "secondary" employment—in grocery stores, barber shops, gasoline stations, restaurants, department stores, and other local enterprises.

But redevelopment groups are finding that it's no easy task to attract new industries to their areas. The stakes are high and the competition is tough. Today there are more than 14,000 organizations across the Nation engaged in economic development activities, and their numbers are multiplying daily. These groups, their sales kits bulging with development lures, are all out actively soliciting new industries—and there just aren't enough companies planning new plants to go around.

The community's "get-the-new-plant" effort, therefore, should be balanced by equally strong and equally imaginative efforts to develop "home-grown" enterprises—new business firms that will utilize the community's own materials, manpower, money and markets.





THE ADVANTAGES OF "HOME-GROWN" INDUSTRIES

Because they are designed specifically to a community's needs and potentials, locally owned and locally organized industries have many advantages for the redevelopment area. This type of economic growth makes it possible for each area to utilize to the fullest its natural resources, available surpluses, and by-product material.

An ARA-financed project in Mingo County, West Virginia, provides a good case in point. For years, the economy of Mingo County was built on "king coal". But changing times cut the demand for coal sharply, and changing technologies made it possible to mine more coal with an ever smaller work force. As a result, unemployment in the area was running at a rate of 28.2 percent—one out of every four willing and able workers unable to find a job.

But coal is not the only natural resource in Mingo County. The hills are covered with native hardwoods—ideal for furniture dimension stock. The local redevelopment group and local entrepreneurs capitalized on this

resource and, with the aid of an industrial loan from the Area Redevelopment Administration, a new woodworking plant is now in operation, providing 200 direct jobs in the furniture plant and another 100 secondary jobs in associated lumbering operations.

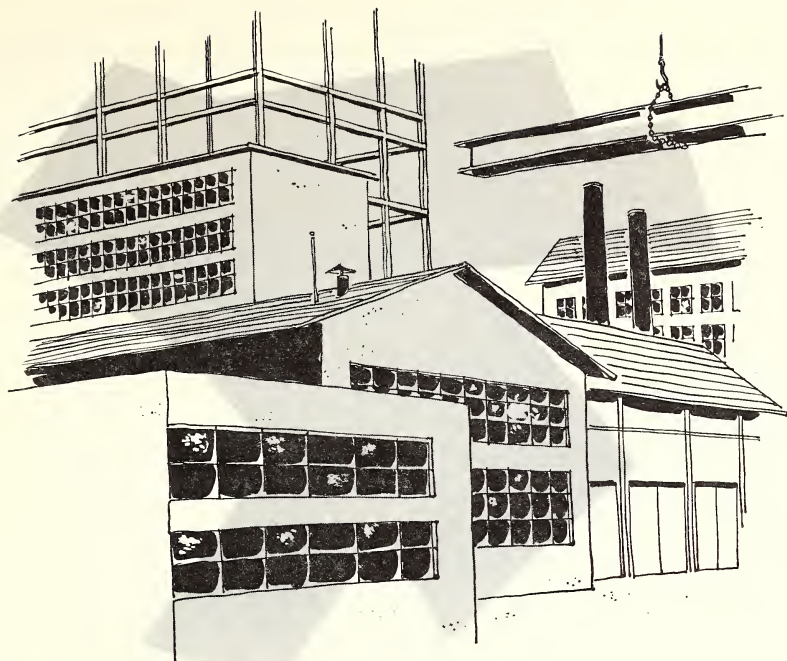
Mingo County is, of course, just one example. And each community will have different needs for new industry. A resort area may be badly in need of year-round industrial payrolls. However, the wrong kind of manufacturing plant might seriously damage the community's major tourist trade, thus offsetting the advantages that new industry brings with it. By developing its own industries, the community can carefully select the type of industry that will add to its employment, while preserving its existing resort assets.

There are many other advantages to locally developed industries. For one thing, they tend to cling to the place of their birth and are more likely to become permanent. A community seldom loses an industry it has created and developed.

Then, too, locally owned and organized industry means that the profits accrue to local residents, are spent locally, and thus make a far greater contribution to the community's economy than do the profits of, for example, a branch plant of a national concern.

In addition, the development of local industries serves to strengthen the community's efforts to attract new industry. Firms seeking new locations will be more favorably disposed toward the community that, by organizing its own industries, has proved its potential for successful enterprise—the community that, by aggressively pursuing all aspects of economic development, marks itself as a good place in which to live, to work, and to invest.





EXPANDING EXISTING INDUSTRIES

Communities embark on industrial development in order to broaden their economic bases and thus create more jobs and more income. Sometimes this can be accomplished best—and most quickly—through the expansion of existing industries, for this often can add the needed payrolls without the work, risk or capital outlay involved in organizing a new enterprise.

Mount Carmel, Pennsylvania, is a good example. The industrial development group in this Keystone State community helped to create 147 new direct jobs by working with a local wire products concern on an expansion program. With the help of a loan from the Area Redevelopment Administration, plus the funds that the development group raised locally, the community built a new plant addition and leased it to the wire firm. In addition, local funds and another ARA loan helped the company purchase new machinery and equipment.

There are many firms now operating that should be expanding—firms that could sell and produce more with modern machinery, firms that should be selling their goods in the growing world market instead of concentrating only on domestic markets.

The first step in any economic development program, then, should be to survey the community for existing expandable industries. This calls for interviews with local manufacturers to find out which of them are interested in expansion, and what they need in the way of financial or other support in order to increase production and payrolls.

In some instances, a few thousand dollars of additional investment capital can develop a small local plant into a big business. In other instances, a new line of products might be produced with the alteration or addition of new machinery. In still other instances, the local industry development organization might be of assistance in opening up new markets that would mean increased production, jobs and payrolls.

Small—but potentially big—industries may actually be operating in the community and the local industry development organization should be very certain that it is not missing an opportunity to increase the community's payrolls in this manner.

Experience has shown that the best results are obtained if a two- or three-man team makes personal visits to the top management of these existing firms, touring the plants if they are not thoroughly familiar with the details of the firms' operations.

In interviewing plant management, representatives of the local industry development organization should offer the committee's assistance and cooperation. They should suggest means for plant expansion and assist in the acceleration of expansion plans already under consideration.

Then, looking to the possibility for establishing new firms in the community, they should request new industry ideas from plant management and from key technicians. And they should check to see if the firm is purchasing supplemental items or supplies from distant markets—items that might be manufactured in the community.





ORGANIZING FOR LOCAL INDUSTRY DEVELOPMENT

The development of a community's full economic potential calls for a lot of teamwork, and this is best achieved by developing some form of organizational structure.

No two communities are ever precisely alike: the availability of local people with the time, talent and willingness to serve will vary as widely as will the economic problems that beset communities. Therefore, while this section lists certain separate committees, this is designed more to delineate the divisions of work that must be performed rather than to recommend any specific number of committees.

The Steering Committee

As a first step, most groups form a Steering Committee which spells out the development organization's own policy, functions and plan of procedure. This includes the interpretation of policy for the entire program, the structuring of the program organization, the assignment of duties, the supervision of all working committees, and the review of all program projects.

A local industry development program has four rather distinct phases of operation: resource inventory, resource appraisal, industry recommendation, and industry promotion.

To facilitate the selection and recruitment of people to work on these various phases of the program, and to enlist the support of the entire community, the local industry development organization should, if at all possible, call a community-wide meeting. This will afford an opportunity to explain the goals of the development program, to elicit suggestions as to the types of industry that might be established, and to create enthusiasm for economic development among as many people in the community as possible.

The Resource Inventory Committee

This group will have the responsibility for assembling accurate, up-to-date information about the local factors which are important in the creation of new local industries. Such information often is already available, but it needs to be compiled into usable form. In other instances, it may be necessary to develop new information in order to round out the data required.

The Resource Appraisal Committee

This committee has the responsibility for analyzing and evaluating the community's resources—its economic strengths and weaknesses. In the initial stage of its work, it will be concerned primarily with the establishment of a sort of balance sheet of resource "pluses and minuses", showing how they affect potential new industries.

Obviously, the functions of inventory and appraisal could be combined within a single committee. This is sometimes necessary because of the lack of sufficient capable personnel to staff two groups. In other instances, these functions are combined because of the local feeling that it makes for more efficient operation.

The Industry Recommendation Committee

The task of this committee is to discover the specific industries or activities which, on the basis of resource strengths and weaknesses, would appear to have a good chance of success.

The recommendation of appropriate economic activities will require many of the same talents necessarily employed in inventorying and appraising resources. However, the organization of workers into committees is not so much a matter of setting up entirely different groups as it is to distinguish between the several phases of the fact-gathering and fact-application functions.

After this group has determined the types of industry most likely to succeed in the community, it should deliver its first list to the Steering Committee for final selections. These deliberations will be devoted, for the most part,

to determining whether any of the recommended businesses seem undesirable on social, rather than on economic, grounds. It may be that some undesirable conditions may accompany a certain type of industry. A fertilizer plant, for example, may be economically feasible, but some of the unpleasant conditions that accompany such an enterprise may make it unwanted in the community.

The Industry Promotion Committee

Once the Steering Committee has made its final selection and approved a specific new industry as the goal for local development, the project is referred to the Industry Promotion Committee. It is the task of this group to win community support for the new business operation, to raise the necessary funds, and to help launch the firm as a properly organized and properly financed enterprise.





THE "FOUR M's" OF LOCAL INDUSTRY DEVELOPMENT

In its simplest terms, the creation of a new industry calls for combining the famous "Four M's" of business enterprise—material, market, manpower and money. The local industry development organization must determine how many of these elements already exist in the community, how they may be strengthened, and how they can best be used to provide new employment opportunities.

The Resource Inventory

There are many resources that can be useful in the formation of a new business enterprise—some of them fairly obvious to the local committee, some which do not suggest themselves as readily but which, nevertheless, are important.

Such resources as fruits, vegetables, grains, livestock, timber, fiber plants, minerals and seafood can all be listed as raw materials which might be useful in establishing a new firm. Navigable rivers, waterways, harbors, highways, rail and air transportation also are resources in terms of new industry

development. Waste materials produced by existing firms—wood and metal scraps, textile or chemical wastes—may be potential assets if they can be processed into usable, salable products.

Technical or managerial skills are resources often overlooked as a starting point for a new local industry. Many communities most in need of industrial development have one or more retired executives living in the area—individuals who are often willing, even eager, to contribute their experience, contacts and general “know-how” to the development and management of a new local enterprise.

Before embarking on local industry development programs, many community groups feel that, in their own particular cases, resources for new industry development are either inadequate or non-existent. This feeling stems from the fact that, from time to time, the community has been bypassed or turned down by outside industrial prospects. However, in such instances the prospect already is in business and, in seeking a new location, it is looking for a particular combination of resources and circumstances peculiarly suited to that firm’s operations.

By developing an industry around the community’s resources, many different kinds of industry become immediate potentials for local economic revitalization.

New Industry Ideas

A continuing flow of ideas is needed to insure successful development of local industry: ideas for new and better ways to do the development job, ideas as to new sources of information and assistance, ideas for new industries. The more suggestions for new industries that are presented and processed, the greater the possibility that the enterprise selected and launched by the community will be successful and profitable.

People in the community have ideas on the type of new industry that should be established, and the committee should solicit the views of everyone—labor and management, agriculture and industry, education and government. This serves to point up one of the great benefits of the community-wide meeting, for it is here that the community as a whole can learn of the program, the need for ideas, and the channels for submitting them.

It will be a rare community, indeed, that will not have several citizens with ideas for a new product to manufacture or a new industry to be established. Many—perhaps most—of these spontaneous ideas may not survive the feasibility tests and may have to be abandoned. However, the committee should consider them all to avoid missing the one that could result in a thriving community industry.

In addition to soliciting ideas from their fellow citizens the committee should remain alert to published reports of new products and improvements of existing products, as a source of new industry ideas.

Probably the best of all sources will be the product market, for if a market can be discovered and proved out, the likelihood of developing a new industry to meet the market need is good.

There are, of course, numerous other ways of discovering ideas for new industries, and an alert, hard-working hard-thinking committee will have little difficulty producing a sizable number of good, practical new industry ideas for processing.

The Resource Appraisal

Since the goal of the local industry development drive is to create a new commercial enterprise based on local raw materials and resources, it is obvious that local developers must be thoroughly familiar with all of the community resources that can be considered assets in the building of a new enterprise. These will weigh heavily in the selection of a specific kind of industry for local development.

The best utilization of some resources may defy the ingenuity or imagination of the committee. In this case, the problem can be presented to the community as a whole. For example, the committee may discover that two or more local lumber mills together produce and waste 1,000 pieces of scrap wood daily. The committee may want to publicize this fact and ask the entire community for ideas for a business enterprise that could turn this waste resource into a salable item. Not only can this procedure produce a surprising number of ideas, it will also give every citizen an opportunity to participate in the community's economic development.

If the local industry organization has done its work well—if it has sought ideas based on its inventory of resources, from interviews with existing industry management, from a survey of markets, from the community at large, from individual citizens and groups, from lists of newly invented products, and from the many other sources available—it will have developed a fairly long list of new industry ideas. From this list must be selected the one or two best proposals on which the community group can concentrate its efforts.

Selecting the New Industry

A good deal of painstaking investigation and careful, thoughtful study is necessary before the community group can choose the one new industry that is most likely to be successful and that is best suited to the community. Even those prospects which at first appear to be "ideal," "sure-fire" or "fool-proof" should be given the same careful scrutiny as those that seem less exciting.

Very often, investigating committees become over-enthusiastic about an industry prospect with particular appeal. Too much enthusiasm or too much impatience to "get something started" could lead to an incomplete check-out of an industry—with the result that a plant may be established that is doomed

to failure. A successful "first try" at local industry development is extremely important. Success will instill community confidence and will assure the continued cooperation and participation of all segments of community life in future efforts to develop more industry.

It cannot be emphasized too strongly that the task of selecting and recommending industries for local development is a critical phase of the community effort. The check-out should be deliberate and thorough. To assist in this process, this booklet includes a check list that should prove helpful in the community's determination of its best prospect for a new industry.

Financing the Local Industry

In every step of new industry development, the amount of capital needed to establish the enterprise must be kept in mind.

Some types of industry require larger amounts of invested capital than others, and the variance is great. An automobile tire plant, for instance, would require several million dollars in invested capital to get a competitive start in today's economy. An ornamental iron works, on the other hand, could be safely launched with only a few thousand dollars of invested capital.

Further, some highly-automated, high-capital industries afford fewer job opportunities than plants requiring much less capital outlay. In giving consideration to the ratio between job opportunities and capital requirements, the local committee will find some helpful basic statistics in a booklet entitled "Investing in Jobs," published by the Area Redevelopment Administration.

Since at least a part of the capitalization of each new local enterprise must be raised in or by the community, the size and type of industry will automatically be limited by the availability of funds. The local group should, however, guard against underestimating the fund-raising capacity of the community. It is often surprising how large an amount of investment funds can be raised locally when a good business proposition is properly presented.

The committee should, therefore, have a general idea of the community's financing capabilities and should try to get a fairly accurate idea of the capital requirements at an early stage in the consideration of each industry prospect. In this way, time will not be wasted in checking out an industry that is financially beyond the community's capacity.

Working capital, which usually ranges from 30 to 50 percent of the total capitalization of the proposed industry, must be raised locally. The balance of the funds needed—for land, buildings, machinery and equipment—may be borrowed from private, State or Federal lending agencies.

Communities designated as eligible to participate in the Area Redevelopment program will find ARA in a position to augment local investment capital for industrial activities that will generate new permanent jobs. The full scope of ARA's assistance to local economic redevelopment efforts is explained in a later chapter.

Preparing a Prospectus

Once the committee has determined that a project is economically sound and otherwise desirable for the community, it will be necessary to prepare a prospectus on the new enterprise.

The primary purpose of a prospectus is to set out the facts about a particular enterprise and the reasons why potential investors should put their money into it. Whether the funds are to be acquired by sale of stock or from commercial borrowings, some form of a prospectus is needed.

In drawing up this prospectus, the community group should make certain to avail itself of both legal talent and professional security talent in order to make certain that its presentation complies with all State and Federal regulations regarding the issuance of shares of stock.

Raising the Funds

The solicitation of funds for the new industry project is a job some local developers are reluctant to undertake. Many have been members of various "fund drives" for charitable or civic needs and, having seen community response sometimes fall short of the goals, they often are fearful that the same fate will befall efforts to raise equity capital for a new industry.

Experience shows, however, that if a good industry project has been developed and has been properly presented to the community, these fears are usually groundless. Raising capital for a new local enterprise is different from soliciting contributions. It amounts to an offer to sell shares in a business on which the buyer can expect to make a profit.

Many communities have been successful in developing new local industries by selling shares in amounts that will enable a large number of people in the community to participate in the project.

Using the prospectus as a sales tool, and prior to actual formation of the corporation, subscriptions can be obtained for the shares of corporate stock. When sufficient subscriptions have been secured to insure adequate financial support of the project, corporate organization activities and the actual sale of stock can proceed.

Once organized, with directors and officers elected, the corporation takes over the establishment of the new industry. In many instances, members of the local industry development committee will serve as officers and directors of the new corporation. In such cases, the committee will be able to maintain its involvement in the new industry. But in any event, it should maintain as close a contact as possible with the enterprise.





HOW ARA CAN HELP

Like any other phase of economic redevelopment activity, organizing a new local industry is essentially a community task: the initiative, investment and planning must percolate up from the community, itself.

However, the program of the Area Redevelopment Administration can be of considerable assistance, in a variety of ways, to supplement local efforts to create new permanent employment opportunities in areas plagued with chronic unemployment or underemployment.

Industrial and Commercial Loans

ARA funds are available to augment local public and private investment in the expansion of existing industries or in the establishment of new firms in redevelopment areas. These industrial and commercial loans—*which currently bear an annual interest rate of 4 percent and which can run for as long as 25 years*—can be made to private businesses, public non-profit groups, local redevelopment corporations and government bodies.

The Area Redevelopment Administration may loan up to 65 percent of the total aggregate cost of the project. This covers the amount needed for land,

buildings, and, in cases of demonstrated need, machinery and equipment. Working capital must be excluded from total aggregate cost. Loans from other Federal agencies, such as the Small Business Administration, also must be excluded in figuring aggregate cost.

In order to insure local investment, the Area Redevelopment Act requires that at least 10 percent of the financing come from either a public or semi-public source, such as a State or local government or a redevelopment company, and that at least 5 percent must come from non-governmental sources. This combined 15 percent investment must be in the form of equity capital or as a loan subordinated to the ARA share, with payments on principal deferred until after the Federal loan is repaid.

The Area Redevelopment Administration does not make loans for new or expanding industry unless financing is not available on reasonable terms from other sources. Evidence of this lack of financing customarily is established by letters from private banking sources which are engaged in lending for similar projects and which could be expected normally to make such a loan. In addition, because Congress required the use of existing Federal programs wherever possible, ARA will make every effort to ascertain whether such other Federal programs can be used, either in whole or in part, to aid the applicant.

ARA loans are available for all types of business enterprises—whether in manufacturing, distribution or the service fields. There are no limitations as to the size of the company, and there are neither minimum nor maximum dollar limitations on ARA loans.

In working out the details of these long-term, low-interest loans, the Area Redevelopment Administration works closely with the Small Business Administration.

Public Facility Loans and Grants

If overtaxed water or sewer systems, or inadequate access roads or railroad spurs to industrial sites, constitute an obstacle to a community's plans to expand an existing firm or to start a new local industry, the ARA program may be able to help.

The Area Redevelopment Act makes possible loans for public facility development if the facility is directly associated with new or expanding industry. *These loans currently bear an annual interest rate of 3½ percent, and can be repaid over as long a period as 40 years.* Further, if the financial condition of the community is such that it cannot handle a loan for the entire cost of a project, ARA may be able to supplement the loan with a grant.

Any application for ARA funds for such facilities must show that the project has a direct and immediate relationship to new permanent employment in the redevelopment area.

ARA works closely with the Community Facilities Administration of the Housing and Home Finance Agency in processing applications for these public facility loans and grants.

Manpower Retraining

One of the principal assets of the redevelopment area is its large and available pool of workers. Often these workers already possess the basic skills which the new or expanding company requires for its operations. But in many other instances, a specialized skill is needed.

The Area Redevelopment program makes possible specialized training programs to meet the operating needs of individual concerns. This lowers the "starting-up" costs for the company. In addition, carefully planned employee training programs also shorten the time it takes for a company to get into full production.

In carrying out the job retraining phase of the ARA program, the U.S. Department of Labor and local Employment Service offices recruit, test and select trainees and arrange for subsistence allowances while in training, and the U.S. Department of Health, Education, and Welfare arranges with local and State vocational training officials for the specific courses required.

Technical Assistance

Often the choice of a new industry or the expansion of an existing one will depend on specific studies of the potential of a new product, or of natural resources not previously used in commercial operations, or in the development of new uses for old resources.

Under certain circumstances, ARA can help finance the cost of some of these studies if the potential for generating new jobs is good and if there is a reasonable prospect of favorable results.

In trying to bridge the "knowledge gap" which may be hampering establishment of a new concern, ARA turns first to the available resources within the Federal Government—the Bureau of Mines, the Forest Service, the Fish and Wildlife Service, the Bureau of Commercial Fisheries, to name just a few. If necessary, ARA will contract with colleges and universities and with private research groups to help supply the necessary answers on which new or expanding industry depends.

ARA Field Coordinators

Full-time ARA Field Coordinators serve all of the 50 States and the territories and possessions, working in the redevelopment areas to assist community groups in their efforts to create new employment. From the start of community planning down to approval of project applications, these Field Coordinators serve the local redevelopment efforts to create new employment opportunities.



OTHER SOURCES OF ASSISTANCE

Keeping in mind the old saying that “none of us knows as much as all of us,” the local industry development group will want to take advantage of the services offered by a variety of public and private groups.

State economic development agencies, chambers of commerce, business organizations, labor unions, local banks, public utilities and transportation companies, for example, all have a stake in efforts to create new employment and all can offer services that will make it easier for the local group to pick the industry it wishes to develop.

Many Federal Departments and agencies also can provide specialized assistance. These include:

- ***Department of Commerce***—Information on marketing, distribution, equipment costs, new projects, foreign markets and related subjects can be obtained through the Field Offices of the Department of Commerce located in 34 major cities across the Nation.
- ***Department of Agriculture***—Specialized services through the Office of Rural Areas Development, the Farmers’ Home Administration, the

Rural Electrification Administration, and other agricultural agencies for redevelopment organizations in predominantly rural areas.

- ***Department of the Interior***—Information on minerals and other natural resources, including data on the feasibility of commercial uses of such resources, from such agencies as Bureau of Mines, Geological Survey, Bureau of Commercial Fisheries, and other agencies.
- ***Department of Labor***—Information on work force, including availability of labor, skills, levels of earnings and training needs, available through local Employment Service offices.
- ***Department of Health, Education, and Welfare***—Data on training capabilities through State and local vocational education services, and help in planning community health facilities.
- ***Small Business Administration***—Information on numerous aspects of financing and operating small businesses, as well as direct financial assistance in the form of SBA loans.
- ***Community Facilities Administration***—Assistance on planning programs with particular reference to community needs for public facilities.

These are typical of the Federal resources that can be brought into play to assist the local group in its efforts to develop new industry—industry that will mean new job opportunities for people in search of meaningful employment.





CHECK LIST FOR LOCAL INDUSTRY ORGANIZATION AND PROMOTION

ORGANIZATION

- 1 What form of organization offers the greatest advantages and will best fit successful operation—individual proprietorship, partnership or corporation?
- 2 What legal advice is needed?
- 3 Is the manager sufficiently familiar with all the phases of business operation to run it alone or must he hire the abilities he lacks?
- 4 What licenses, permits, or other regulations must be secured or satisfied before starting operations?

FINANCING

- 1 What will be the cost of establishing the business on the scale proposed, giving consideration to all first costs (plant, equipment, initial materials and supplier, insurance, fees, taxes, organization expenses, etc.)?

- [2] How long may it be before operations begin to show a profit and how much capital is allowed for meeting wages, depreciation, inventory, manager's salary, etc., up to that time?
- [3] What arrangements have been made for sale of firm's products, on which needed funds have been borrowed for working capital?
- [4] What are the advantages and disadvantages in buying plant or equipment, as compared with renting?
- [5] Will the firm have to pay cash for its initial stock of materials, parts, and supplies, or can it immediately establish credit? (Credit obtained for these items will greatly reduce the initial working capital needed.)
- [6] Will it be cheaper to manufacture the components of the firm's product considering cost of equipment, space, capital tied up, etc.—or to buy all parts and merely assemble them? (Purchase of components may reduce fixed and working capital requirements. A well-established plant may be able to sell them cheaper than the firm can produce them.)
- [7] What kind of insurance will the firm need—fire, other disaster, public liability, workmen's compensation, use and occupancy, product liability, comprehensive coverage, others—and how much will they cost?
- [8] If the management cannot raise all the initial capital needed, what plans are proposed to raise it—mortgage, sale of stock, taking on a partner, loan, other?
- [9] How much credit will the firm be able to establish with the local bank for working capital, including that needed for seasonal requirements?

LOCATION

- [1] Where will an adequate supply of labor of the types required be found?
- [2] What transportation, power, water supply, fuel, and waste disposal is needed, and what location will supply these needs best?
- [3] What zoning ordinances are there to consider? (Check with local authorities. Unless the site selected is zoned for the firm's type of business, there is little point in considering it further.)
- [4] What fire protection will the firm receive at the available sites? (It must be provided. If the community does not provide it, then the firm will need to.)
- [5] What waste disposal and sanitation features are to be found at the available sites? (This is highly important in certain industries.)
- [6] If the cost of the proposed site appears excessive, what necessary services or advantages does it possess which would require additional expenditures at a cheaper site?
- [7] If the market for the firm's product will be local, what are the market prospects that justify selection of the proposed location?

MARKET

- [1] What are the marketing problems the firm will face, analyzed from ultimate user, through the entire distribution system, back to the firm?
- [2] If the firm will be manufacturing for others on a contract basis, how stable will its operations be? Will the firm's operations be subject to the seasonal fluctuations of its customers' businesses?
- [3] How dependent will the plant be on the permanency of one or two large contracts? What would the management do if one of such contracts were terminated? (There is a danger in having all its eggs in one basket.)
- [4] Will the firm's product create a new demand, or will it have to depend on winning over part of the existing market?
- [5] What share of the potential market can it be fairly certain of getting?
- [6] What steps should management take to offset the operating problems resulting from seasonal fluctuations in sales? What other products could be produced to even out fluctuations of production?
- [7] If the firm's product is a consumers' type of product, from what class groups may it expect greatest sales? (For example: is the product bought mostly by people with high, medium, or low incomes; mostly by women, or by men; by certain age groups?)
- [8] In what quantities and how frequently does the user buy the firm's product?
- [9] How much of an inventory of finished goods should be carried? (Working capital must be adequate to meet these needs.)
- [10] What are the plans for unusual styling? (Trade associations and trade publications can be helpful.)
- [11] What steps has management taken to provide a package that will assure maximum sales appeal, as well as give protection to the product?
- [12] How aggressive are the competitors? (It is important to know as much about competitors as possible.)
- [13] What new uses have been developed for the firm's product?
- [14] What is the primary basis of sales appeal for the product—price, quality, service, distinctive styling, other?
- [15] What steps have been worked out to assure the uniformity and standardization of the quality customers will demand?
- [16] Does the product have to be introduced to the market, new uses encouraged, or does the brand or company name need to be established?
- [17] How important is brand preference? Is the product one that is usually bought by brand or does the consumer usually buy it with little insistence on brand?

- [18] How much of the output can be sold without advertising? Is this volume sufficient to operate profitably? If not, how much can the firm afford for initial advertising?
- [19] What is the most effective means of advertising the product? (For example: direct mail, newspapers, handbills, business cards, spot radio announcements, dealer displays, trade publications.)
- [20] What testing methods can be used to determine the effectiveness of advertising?
- [21] How does the product get from the plant to consumer in the sales area—through middlemen to retailers, direct to retailers, direct to consumer?
- [22] How many, what types, and where are the intermediate distributors—brokers, jobbers, wholesalers—which might normally handle the product? (Trade directories and trade journals, usually available in public libraries, may be helpful.)
- [23] How many, what type, and where are the retail outlets which would normally handle the product?
- [24] What are the buying habits of the trade—quantities, frequency, terms?
- [25] What has been done to determine the possible attitude of dealers toward the product, the company's advertising, the company itself?

PLANT

- [1] What type of building will be needed?
- [2] How much space is needed?
- [3] What provisions are made for future expansion in building plans?
- [4] Should everything be on one floor or on several?
- [5] What specially engineered features are required, such as particular type of lighting, heating, ventilating, air conditioning, or dust collecting facilities?
- [6] What fire, police, and safety regulations must be followed? (If there are hazardous operations, strict regulations often exist.)
- [7] What structural strengths are required to support the machinery and other equipment? What are the requirements of the building code in this regard?
- [8] Has the plant met the standards of the industrial commission and health department?
- [9] What storage of raw material or finished product is needed? Is this available? What will it cost?

EQUIPMENT AND LAYOUT

- 1 What equipment is needed?
- 2 Where can it be obtained? (Trade publications are one source of information.)
- 3 Are specially designed machines needed?
- 4 Can or should secondhand equipment be used? (Be sure to make complete investigation of the condition of any secondhand equipment before purchasing.)
- 5 How is the layout arranged? Will the flow of work proceed on schedule with a minimum of movement and handling?
- 6 What facilities have been provided for protection of valuable inventories—for example, use of electric eye, burglar alarm system?

PURCHASING

- 1 What characteristics, specifications, or properties will be required in the materials or parts purchased? (It is important that specifications be stated clearly on all purchase orders, so that there can be no controversy about the material delivered to the plant.)
- 2 What methods are used to identify or test for quality and uniformity?
- 3 How do quoted prices compare between suppliers? (It is advisable to get quotations from at least three different sources if possible.)
- 4 What is the real cost from each supplier, considering quality, freight costs, dependability of deliveries, etc.?
- 5 To what extent can standard materials and parts be used—or will special-run orders be required? (It is usually advisable to use standard materials whenever possible.)
- 6 Will it be cheaper to buy large quantities infrequently or small quantities frequently, weighing price differentials for large orders against capital and space tied up? (Consideration should be given to the extra office and handling detail involved in frequent small purchases.)
- 7 What does the management consider to be the minimum inventory, making allowance for time necessary to replenish it? (Management should weigh the advisability of having sufficient stock of basic materials as a protection against delays in getting deliveries.)
- 8 What system is used as a guide to reordering?
- 9 Is credit used when it is offered? Is the firm able to take advantage of discounts for cash?

LABOR

- 1 What skills are required?
- 2 Does the owner superintend plant operations himself, or does the firm hire the know-how? This function must be performed, so what provision is made for it?
- 3 Is the management sufficiently familiar with the processes involved to be able to train the workers?
- 4 What wage payment system is used—hourly rate, piece rate, etc? What system is used in the locality and other local industry?

PACKAGING

- 1 What is the packaging cost of the firm's product? If this cost exceeds the minimum for which the product could be packaged, what value or benefit offsets the excess cost?
- 2 If cartons, cans or jars are used, will they be filled by hand or machine?
- 3 If machines are used, will they be owned or leased?
- 4 What kind of shipping boxes or crating is used or needed?

RECORDS, COSTS AND PRICING

- 1 What steps have been taken to install an adequate accounting system to provide the information needed for efficient management of the business?
- 2 How much will each unit of the finished product cost? (Consider all expenses, overhead, as well as operating—for example, cost of materials, direct and indirect labor, supervision, repairs, salaries, depreciation, insurance, selling, general administration, etc.)
- 3 What system is in use to keep check on costs? Is the system simple yet effective?
- 4 In estimating costs what allowance is made for bad debts, returned goods, spoilage, or other contingencies?
- 5 What price will have to be charged to cover costs and obtain a profit?
- 6 How does this price compare with prices of the rest of the industry? (If selling a competitive product, with no distinct difference from others, it is important to be in line.)
- 7 What is the firm's policy with respect to quantity and cash discounts?
- 8 What credit terms does the firm need? (Its working capital requirements will be affected by this decision.)
- 9 Are trade allowances sufficient to be attractive to distributors?

- [10] Are allowances and credit terms in line with the industry?
- [11] If not, how is the difference justified? (Differences are difficult to justify, unless the product is distinctive.)
- [12] Where the State laws allow the fixing of the resale prices at which a product can be sold (most States have such laws), what advantages would be gained by fixing the price?

GENERAL

- [1] What are the company's plans for keeping up with technological improvements in the industry, to assure operating under the most efficient methods? (Trade associations and publications can be helpful.)
- [2] Are company operations subject to interstate commerce regulations? (This may not be easy to determine.)
- [3] What legal counsel has the company retained to guide the shaping of its policies and for pointing out its responsibilities in connection with such matters as advertising, pricing, ingredients, purity of product, royalties, labeling, trade agreements and codes, trade practices, patents, trade-marks, copyrights, brand names, as they are affected by Federal or State statutes or local ordinances?



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